

**EXHIBIT LIST**

<b><u>EXHIBIT</u></b>	<b><u>DOCUMENT</u></b>
1	Transcript of Trial in the matter of <i>Ronald Larsen v. Simonds Industries Inc.</i> , No. 01-40059 ("Larsen Trial Transcript")
2	Second Affidavit of Ilda Thibodeau ("Second Thibodeau Aff.")
3	Affidavit of Ilda Thibodeau ("Thibodeau Aff.")
4	Deposition of Patricia Jearman taken on March 14, 2005 ("Jearman Dep.")
5	Deposition of Louis Alberghini taken on October 23, 2002 ("Alberghini Dep. I")
6	Deposition of John Jordan taken on March 14, 2005 ("Jordan Dep. II")
7	Deposition of Richard Brault taken on January 3, 2003 ("Brault Dep.")
8	Deposition of Peter Duperry taken on January 3, 2003 ("Duperry Dep.")
9	<u>Saposnik v. Babcock Borsig Power, Inc.</u> , 19 Mass. L. Rptr. No. 27 611, 614 (Mass. Super. September 12, 2005).
10	Deposition of John Jordan taken on October 3, 2002 ("Jordan Dep. I")
11	Affidavit of Craig Lawson Moore, Ph.D. ("Moore Aff.")

# EXHIBIT 1

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UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

RONALD LARSEN, )  
Plaintiff, )  
 )  
 )  
vs. ) CA No. 01-40059  
 )  
 )  
SIMONDS INDUSTRIES, INC., )  
Defendant. )

BEFORE: The Honorable Nathaniel M. Gorton

DAY TWO OF JURY TRIAL

John Joseph Moakley United States Courthouse  
Courtroom No. 4  
One Courthouse Way  
Boston, MA 02210  
Tuesday, May 10, 2005  
9:08 A.M.

Cheryl Dahlstrom, RPR, RMR  
James P. Gibbons, RMR  
Official Court Reporters  
John Joseph Moakley United States Courthouse  
One Courthouse Way, Room 3209  
Boston, MA 02210  
Mechanical Steno - Transcript by Computer

1 these two things led to that decision.

2 Q By the time that decision was made, had you already  
3 conducted your site visits to other Simonds manufacturing  
4 sites?

5 A Largely, yes.

6 Q And based on those site visits, did any other Simonds  
7 manufacturing site have that level of management that had  
8 been occupied by Mr. Larsen?

9 A No.

10 Q At those other sites, did the unit managers report  
11 directly to the plant managers?

12 A Yes.

13 Q What, if anything, were you hoping to accomplish with  
14 the elimination of that level of management?

15 A As I mentioned, the primary motivation was the  
16 management philosophy that we could improve communications,  
17 get more empowerment of employees; but, additionally, it  
18 would be a cost reduction to help achieve what was then a  
19 dangerously low level of profitability for us.

20 Q Did you know the age of any of these employees selected  
21 for layoff before they were laid off?

22 A No.

23 Q Did you know their ages before the decision was made as  
24 to the layoffs?

25 A The typical -- not the "typical" process.

1           The process we went through at that point in time  
2       was to identify the decisions that we had to make, then list  
3       the employees that were affected, and then do a review of  
4       all the employees and all of the information about the  
5       employees to make sure that we were following proper legal  
6       procedures and fairness with respect to the decisions of the  
7       impact of the reductions in force.

8       Q    So you're saying that this review was done after the  
9       decision had been made as to who would be laid off?

10      A    Yes.

11      Q    Why was that type of analysis done?

12      A    Well, it was something that I had been accustomed to at  
13       Stanley, certainly, in my career, is that it was standard  
14       operating procedure, if you will, or common practice to make  
15       sure that we were reviewing the impact of our decisions to  
16       make sure that we were abiding by the law and being fair to  
17       all employee groups.

18      Q    Do you know if that type of review was done for the  
19       layoff that impacted Mr. Larsen?

20      A    Yes.

21      Q    Do you know the results of that review?

22      A    It indicated that the process had been followed  
23       properly, and that there were no exceptions, and that we  
24       were ready to proceed with the reductions in force as  
25       planned.

1 essentially the heart of the Simonds operating system. It's  
2 a management philosophy that helps us run the company.

3 Q Was that operating system implemented at the company?

4 A Yes, it was.

5 We began to roll it out soon after I arrived at the  
6 company in late '99, and it's been -- it continues to be  
7 imbedded in the organization every day that goes on. It's  
8 just a common way of operating the company that we employ.

9 Q Were there other layoffs while you've been president of  
10 Simonds?

11 A Yes. Unfortunately, there have.

12 Q Why have those been?

13 A Again, in the first period, the first six months after I  
14 arrived at Simonds, is when we saw the deteriorating  
15 financial conditions in late 1999. So it was necessary for  
16 us to make about -- reductions in force of about 60  
17 employees in the first six months.

18 That was driven by the fact that in late 1999 we  
19 were earning just enough money to make the interest payment  
20 on our bonds, or our big mortgage that you described  
21 earlier, and the company stabilized after that.

22 But in 2000, late 2000 and 2001, we hit a severe  
23 recession and actually ended up taking out an additional 170  
24 employees throughout the company. We had to have reductions  
25 in force to compensate for what was a rapidly deteriorating

1 business climate.

2 Q I know you've already answered this, but I'll ask you  
3 one more time.

4 Do you recall the number of employees at the  
5 company when you joined?

6 A It was about 930.

7 Q Did that change at all in 2000?

8 A By the end of the first quarter of 2000, that had  
9 dropped by about 60, I think down to about 870.

10 Q Did those numbers change at all in 2001?

11 A By the end of 2001, again because of the severe impact  
12 of the recession, I believe we were down to about 660  
13 employees. So the impact was very broad across all parts of  
14 the business and all locations in the company.

15 Q Did those numbers change again in 2002?

16 A Not substantially, but they went down a little bit  
17 further.

18 Q Other than layoffs, did the company undertake any other  
19 type of cost-saving measures to deal with these financial  
20 issues you just described?

21 A Certainly. We did a couple of things.

22 We worked hard with our suppliers to reduce  
23 material costs. We asked all of our suppliers to give us a  
24 price reduction of somewhere between 5 and 10 percent on all  
25 supplies.

1           We did a number of other things like asked our  
2       salaried employees and union employees to take wage cuts.

3           We did not have any success getting our unions to  
4       agree to wage cuts during the 2001 severe period, but we did  
5       impose wage reductions for salaried employees for a period  
6       of time and also reduced -- postponed merit increases for a  
7       period of time.

8       Q   As president of Simonds, you receive sales reports on a  
9       regular basis?

10      A   Yes.

11      Q   What kind of sales reports?

12      A   Well, it would give us incoming orders as well as  
13       shipments of product, by product family, by region of the  
14       world.

15      Q   Was there a comparison done to prior year sales  
16       performance?

17      A   Yes.

18      Q   What about a comparison to forecast?

19      A   We comparison to both.

20      Q   Would that same type of information be available as to  
21       the financial performance of the company?

22      A   Yes.

23      Q   And those types of reports have been available to you  
24       since you joined the company?

25      A   Yes.

1 Q What was the company's -- I'm going to ask you two  
2 things. I am going to ask you what it was, and I'm going to  
3 ask you to explain what that is.

4 What was the company's debt load when you joined  
5 Simonds?

6 A When I came to Simonds there was about a little over  
7 \$102 million of debt, and to put that into perspective, the  
8 company's sales were about 127,000,500. So we were at that  
9 time considered an extraordinarily highly leveraged company.  
10 That is a very high amount of debt, and that debt carried an  
11 interest rate of ten and a quarter percent. So annually the  
12 combined debt and interest payment, the interest payment on  
13 the debt, was about \$10,500,000 that we had to make, and  
14 that was just on the interest, no principal payment. This  
15 was an interest-only loan.

16 Q Would it be fair to characterize that debt load as  
17 something akin to a mortgage that people might have on their  
18 homes?

19 A Precisely.

20 Q And let me direct your attention to the fourth quarter  
21 of 1999.

22 For the fourth quarter of 1999, did you note any  
23 trends in the sales during that quarter?

24 A Sales were reasonably good. They were still flat over  
25 the period of 1999.

1 Q What about profitability?

2 A Profitability was what was beginning to deteriorate with  
3 what I mentioned before, with the cost pressures escalating  
4 and prices beginning to go down in the marketplace.

5 Q How was the financial performance of the company in the  
6 fourth quarter, or the profitability of the company in the  
7 fourth quarter, in 1999 compared to how it had done in 1998?

8 A It was lower.

9 Q How was it doing in terms of forecast for this  
10 particular quarter?

11 A It was also lower.

12 Q Did this cause you any type of concern?

13 A Well, yes, because of the rate at which we were earning  
14 profit in November and December was not sufficient to cover  
15 our interest payments. So we were dangerously close to not  
16 being able to fund the interest payment if we didn't take  
17 some action.

18 Q Was there any change in cost of doing business from 1998  
19 to 1999?

20 A Well, the normal wage inflation, as our employees, both  
21 salaried and union employees, hourly employees, are  
22 typically given an annual wage increase. There certainly  
23 are increased health care costs, energy costs that were sort  
24 of a natural inflation that's built into the cost base of  
25 the business.

1 Q Again, let me preface that.

2 Would I be correct to say that that's akin to the  
3 daily and monthly living expenses that one would have?

4 A Sort of a cost-of-living increase for business.

5 Q In 2000, was there any trend in sales at the existing  
6 sites?

7 A The first two quarters of 2000, the first six months,  
8 sales continued to be reasonably good. They were flat  
9 compared to 1999.

10 In the second half of 2000, beginning about the  
11 June period, we saw a rather dramatic decline in incoming  
12 orders and sales for the part of our business that serves  
13 the sawmill industry. And what had happened there was the  
14 price of lumber, which generally drives the cutting activity  
15 and the equipment that we provide to the industry, dropped  
16 tremendously and suddenly, I might add.

17 So our sales dropped by about \$2 million per  
18 quarter in the second half of 2000 compared to the first  
19 half. So the first half was good performance and the second  
20 half began to deteriorate.

21 Q Did you note any trend in profits or profitability in  
22 2000?

23 A Yes.

24 The first two quarters, again, the first half, of  
25 the 2000, the profitability was strong. We were making our

1 interest payments with extra room to breathe, if you will.  
2 And in the second half, profits began to decline  
3 substantially, and we found ourselves in the similar  
4 position that we were in in the fourth quarter of 1999,  
5 being sort of on the cusp of not being able to fund the  
6 interest payment and have some measure of comfort.

7 Q In these first two quarters of 2000 when you said you  
8 had that breathing room in terms of how the company was  
9 doing, was this after the layoffs had occurred in January of  
10 2000?

11 A Yes.

12 One of the fundamental reasons why our performance  
13 did improve in the first half of 2000 was the reductions in  
14 force and the changes we made with our suppliers to reduce  
15 costs on materials and supplies and the other measures we  
16 put in place to reduce costs in late 1999 and the beginning  
17 of 2000.

18 Q Knowing what you know about the company's financial  
19 performance, can you tell me how the company's financial  
20 performance would have been in the first half of 2000 if it  
21 had not undertaken these cost-saving measures?

22 A Well, there's no way for me to project what they would  
23 have actually been, but if we had not taken the action, they  
24 would have been similar, in my view, to the fourth quarter  
25 of 1999, which would have been that level at which we would